CORN REFINERS ASSOCIATION

Testimony

By

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Corn Refiners Association

Before the

House Agriculture Committee

On the

2007 Farm Bill

September 13, 2006

Mr. Chairman, members of the Committee, thank you for this opportunity to present the views of the Corn Refiners Association on the next Farm Bill.

The Corn Refiners Association, or CRA, represents the corn wet milling industry. Our members produce a number of products for food use: highly specialized corn starches, corn sweeteners, corn oil and other food ingredients, as well as animal feed products like corn gluten feed and meal, and a number of products for industrial use such as ethanol and bio-plastics.

Our industry has formulated a position for the 2007 Farm Bill – a position that stems from being the victim of a longstanding trade dispute that cost our industry more than $4 billion over the past ten years. In specific, the CRA has no higher priority than the long-term, permanent resolution of the decade-long high fructose corn syrup (HFCS) dispute with Mexico. The permanent resolution of this issue is linked to the operation of the U.S. sugar program – an issue of key consideration for the next Farm Bill.

Specifically, the CRA has concluded that the long-term resolution of this dispute rests on two-way, free trade in sweeteners between the United States and Mexico, as envisioned by the North American Free Trade Agreement (NAFTA) effective January 1, 2008. How the U.S. sugar program is structured under the next Farm Bill is crucial to ensuring that the free trade promised under the NAFTA is realized in 2008 – not only for our industry, but many others as well. If any element of the sugar program restricts or otherwise negates free trade in sugar between the United States and Mexico, then corn sweeteners will be taken hostage yet again. Mexico will simply stop imports of our high quality sweetener at significant cost and loss of jobs to our industry.

It is imperative that the next Farm Bill not limit imports of sugar from Mexico through marketing allotment provisions, or some other mechanism. To do so would be in strict violation of U.S. commitments under the NAFTA, an agreement that has been highly

beneficial for U.S. agricultural exports, including beef, pork, poultry, dairy, corn, soybean meal, apples, dry edible beans, and rice. If the United States does not live up to its NAFTA commitments on sugar, we can be certain that Mexico will be under intense political pressure to nullify its NAFTA free trade commitments for these high value U.S. exports.

As you know, the 1.532 million short ton import trigger established for marketing allotments in the 2002 Farm Bill will currently enable only 276,000 short tons (approximately 250,000 metric tons) of imported sugar from Mexico and other FTA countries after the U.S. WTO commitment is satisfied. The NAFTA allows for free trade in sugar in 2008 – thereby rendering the 276,000 short ton cushion under the existing marketing allotments for sugar imports from Mexico incompatible with our NAFTA obligations.

Thus, marketing allotments are a barrier to sweetener trade with Mexico. The 2007 Farm Bill must be consistent with the NAFTA. That is no sugar program provision should stand in the way of, or act as a limit to, full implementation of two-way trade in sweeteners with Mexico. The CRA will not be in a position to support the U.S. sugar program in the next Farm Bill if imports of Mexican sugar are subjected to or limited by marketing allotments or any aspect of the sugar program.

For further consideration by this Committee, it is clear that the sugar program, as it is currently constructed, will no longer be a no net cost program beginning in 2008. Specifically, the program is forecast by the Congressional Budget Office to incur taxpayer costs beginning in 2008, with annual costs averaging $248 million from 2008-16, and reaching $340 million annually by 2016 as follows:

2008: $32 million
2009: $130 million
2010: $214 million
2011: $259 million
2012: $294 million
2013: $305 million
2014: $321 million
2015: $335 million
2016: $340 million

These projected costs are a direct result of the anticipated imports of sugar from Mexico.

Finally, the corn wet milling industry is very supportive of the efforts of the Sweetener Users Association to reach out to the broader sweetener industry, including sugar growers and refiners, to formulate a sugar policy that maintains a viable sweetener economy and is beneficial for all aspects of the sweetener industry.

We thank you for the opportunity to testify before this Committee and hope our comments concerning the need to ensure full implementation of the U.S. commitment for

free trade in sugar with Mexico is fully incorporated in the sugar provisions of the next Farm Bill.

Background on the U.S.-Mexico High Fructose Corn Syrup Dispute

Since 1997, the sweetener impasse with Mexico has resulted in more than $4 billion in lost HFCS sales, both HFCS exports and U.S.-owned HFCS sales in Mexico, or in excess of 800 million bushels of corn production, including lost corn sales to Mexico intended for sweetener production.

In 1997, Mexico imposed preliminary, and later final, antidumping duties on U.S. exports of high fructose corn syrup. Both the World Trade Organization and the NAFTA dispute settlement panels found Mexico's antidumping investigation to be illegal.

In January of 2002, Mexico lifted its antidumping margins on U.S. HFCS exports, and instead, imposed a 20% tax on all beverages sold in Mexico that are sweetened with HFCS. This tax shut the Mexican market down overnight for U.S. exports of HFCS and bulk corn for production of HFCS in Mexico by U.S. owned firms. This tax remains in place to this day. Losses of $944 million in HFCS sales, equivalent to 168 million bushels of corn, are sustained every year that the tax is in place, with additional sizable losses to investments.

The U.S. corn industry lost its top HFCS export market with an estimated annual potential of 2.6 million metric tons:

Economic Loss	Losses in Market Value to the United States
Lost HFCS sales to Mexico	▪ **In excess of $4 billion lost in HFCS sales since 1997** ▪ **$944 million lost in HFCS sales annually**
Lost corn sales	▪ **Since 1997, the United States has lost a market for 833 million bushels of corn valued at $1.7 billion** ▪ **Or $437 million (168 million bushels) in lost corn sales annually**
Lost farm input sales	▪ **Unspecified losses to seed, fertilizer and farm machinery industries and related rural investment.**
Economic Benefit if Mexican market is fully re-opened to HFCS	▪ **Increase of $0.06 per bushel of corn nationally, or $0.10 per bushel in key corn states**

The corn wet milling industry idled capacity, eliminated jobs, closed plants and witnessed the exit of some companies from the industry as a result of the lack of a resolution on this issue.

The price per bushel of corn in the United States could rise by $0.10 in key corn states, or $0.06 nationally, when the Mexican market is fully restored for corn sweeteners.

The corn-based sweetener industry is a significant contributor to the U.S. economy. Of the more than 370,000 total jobs in the U.S. sugar and corn sweetener sector, more than 226,000 are involved in bringing corn-based products to the market.

The United States began WTO dispute settlement proceedings against Mexico's discriminatory soda tax in March 2004. The WTO issued a final ruling on the HFCS case in favor of the United States on October 7, 2005 that was later appealed by the Mexican government. Mexico appealed the WTO ruling and the WTO Appellate Body ruled in favor of the United States on March 6, 2006.

On October 1, 2005, Mexico established a tariff rate quota of 250,000 metric tons of HFCS access for U.S. exporters. The Corn Refiners Association welcomed the TRQ as a first step in resolving the HFCS dispute, but continued to assert that significantly greater access to Mexico was necessary to rectify the near closure of the Mexican market for the past four years.

On July 27, 2006, the U.S. and Mexican governments announced a settlement to the WTO HFCS case. The agreement covers the period October 1, 2006, through December 31, 2007. It provides for 250,000 metric tons dry basis of HFCS access into Mexico for the first twelve months and a minimum of 175,000 metric tons, or up to a maximum of 250,000 metric tons, for the remaining three months. An equivalent amount of access will be granted for Mexican sugar exports to the United States. The soda tax will be eliminated in January 2007, consistent with an agreement reached between Mexico and the United States and as notified to the WTO. All duties will be removed on U.S.-Mexico sweetener trade effective January 1, 2008, as required by the NAFTA.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Audrae Erickson

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Organization you represent (if any): Corn Refiners Association

1. **Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: _____ **Amount:** _____

Source: _____ **Amount:** _____

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

Source: _____ **Amount:** _____

Source: _____ **Amount:** _____

Please check here if this form is NOT applicable to you: X

Signature: _____

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

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